



Department of the Treasury
Washington, D.C. 20220

MEMORANDUM

Date: 9 December 1981

To: The Files

From: Alexis Rieffel

Subject: 3 December 81 Meeting of CCEA WG on LDC Financial Problems

A. Introductory Comments

LELAND: Opened meeting with a request for comments from Working Group members on the "Background Paper on LDC Debt" prepared by Treasury staff.

HORMATS: After "comparable treatment", the most important issues are: (a) participation of MDBs in rescheduling operations; (b) alternative approaches to debt relief in "prolonged" cases; (c) role of the IMF as a monitor and IMF borrowing arrangements as a precondition for relief from official creditors; and (d) interest rates charged by USG agencies on rescheduled debt.

BAILEY: Three things missing in draft paper at this stage: (a) analysis of debt situation in East Europe; (b) budget impact of "alternative futures"; and (c) impact on banking system under different scenarios of collapse, identifying countries and assigning probabilities to events.

PORTER: This WG serves three purposes:

- (a) an "early warning mechanism" for Cabinet-level policy-makers;
- (b) educate Cabinet-level and other senior officials on current and emerging problems; and (c) put forward specific policy recommendations/options for Cabinet-level decision.

B. Discussion

1. "Comparable Treatment" and Role of Commercial Banks

-- (Leland) We will work on memo to the CCEA on comparable treatment and send it out soon. (Treasury Office Concerned: IDN, IMB)



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- (Leland) Interrelationship of private and public sectors in foreign lending is quite different in the U.S. and in other G-5 countries. Different banking structures/systems lead to different policies. Should explore this. Need to look at banking laws. Consider to what extent USG wants to get involved in debt relief by banks. European governments can do things for their banks (subsidies, commissions, deposits, etc.) that USG cannot do. Would never get honest answers from Japan (or France) if we asked for explanation. I will ask Treasury attaches to submit reports on this. We agree on arms-length relationship but what should USG do when there is evidence that banks are being over-eager or too nervous. (Treasury Office Concerned: IMA, IMB)
- (Hormats) Get the IMF to update the study they did a few years ago showing that bank exposure has increased after countries have concluded IMF arrangements. (IMA)
- (Bailey) Important to distinguish between leaning on the banks for political reasons and talking with them about prudential/regulatory concerns.
- (Bailey) Need information on "bunching" of maturities for countries that might collapse. (IMB, IDN)

2. East European Debt Situation

- (Leland) Need to examine the whole East European situation on a "separate track". This should include role of IMF. This is most timely issue. (ITE, IMA, IMB)

3. MDB Participation in Rescheduling Operations

- (Farrar) Agree with State that MDB participation issue is good one to pursue. (IDB, IDN, IMB)
- (Burnham) Need to focus on commercial bank co-financing with MDBs, which raises questions about whether the MDBs should continue to enjoy preferred status over the banks which participate in co-financing arrangements.

4. Early Warning Mechanism

- (Leland, responding to Porter's request for an early warning mechanism). Don't want to classify countries as the Comptroller of the Currency does. Country situations (e.g., Brazil) evolve rapidly. Might do periodic reports to the CCEA on debt issues that are surfacing like Zaire and rescheduling previously rescheduled debt. (IDN)

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- (Hormats) Periodic reports should also identify countries like Brazil where there are issues across the board (trade, aviation, etc.)
- (Farrar) Periodic report could also identify budget impact.

5. Other Matters

- (Leland) Need comments from WG members on Background Paper so it can be put in final form. (Treasury Office Concerned: IDN)
- (Bailey) CIA should be invited to participate in WG. (Leland and Porter agreed. There was also agreement that the Federal Reserve should be involved in some discussions.) (IDN)
- (Anderson) Need to examine central bank swap arrangements. (IMA)
- (Leland) We will do a summary of our work program. (IDN)

C. List of Participants

Treasury:	Marc Leland	CCEA:	Roger Porter
	Tom Dawson		Doug Anderson
	Charles Dallara		Eric Hemel
	Lex Rieffel	NSC:	Norman Bailey
State:	Bob Hormats	CEA:	Jim Burnham
	Elinor Constable	OMB:	Steve Farrar
	John Dawson		

DISTRIBUTION: Participants, plus T. Leddy, B. Newman, J. Ammerman, N. Jacklin, D. Templeman, F. Maresca, J. Hartzell, R. Cornell, S. Canner

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